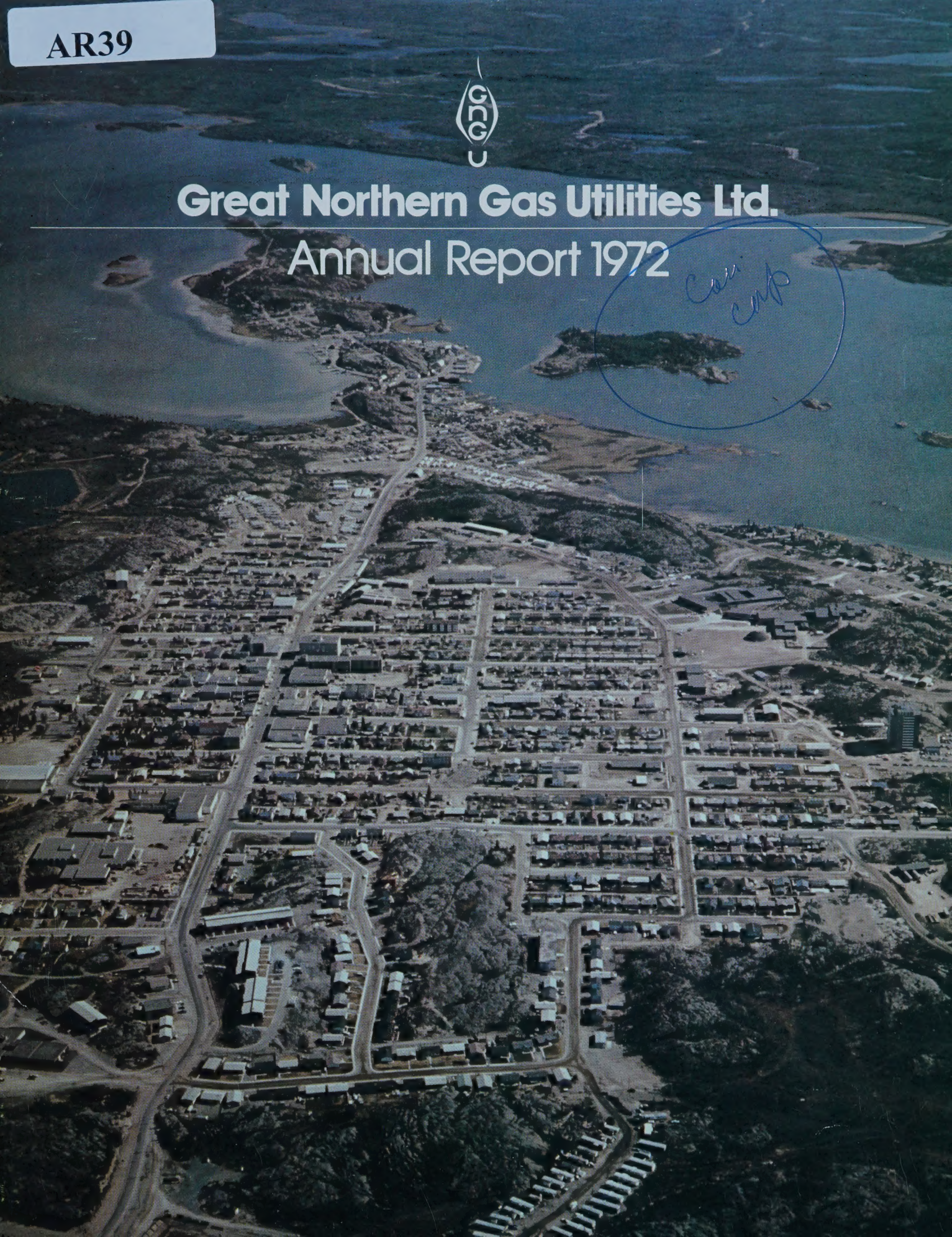
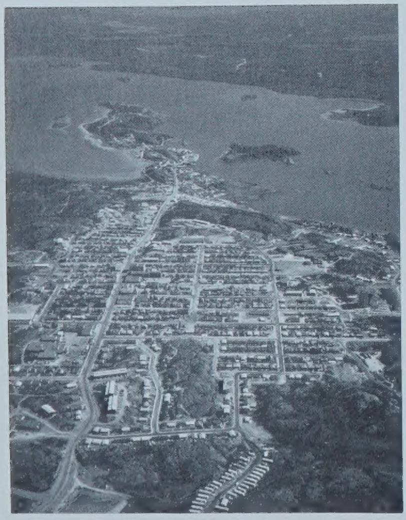
Great Northern Gas Utilities Ltd.

Annual Report 1972





*Aerial view of the City of Yellowknife,
capital of the Northwest Territories, where electricity sales
volumes increased 28% over the preceding year.
Photograph by Gerhard Reimann, courtesy the City of Yellowknife.*

Great Northern Gas Utilities Ltd.
and subsidiaries

Highlights

	1972	1971	1970	1969	1968
Utility Customers at Year End . .	34,686	32,182	30,369	28,706	25,043
Utility Gas Volumes (Mcf)	14,723,000	14,018,926	12,705,828	11,039,311	10,525,718
Electricity Volumes (Kwh)	36,469,000	28,504,000	25,298,100	20,883,105	17,080,792
Sales (Note 1)	$11,116,306	$ 9,982,224	$ 8,948,620	$ 8,052,468	$ 8,757,703
Other Revenue (Note 2)	$ 995,279	$ 1,030,031	$ 1,106,148	$ 1,029,844	$ 931,035
Cash Flow	$ 2,557,317	$ 2,414,838	$ 2,323,967	$ 2,084,159	$ 1,963,795
Net Earnings (Note 2) (Before extraordinary items)	$ 1,597,770	$ 1,494,820	$ 1,493,867	$ 1,265,601	$ 1,244,204
Working Capital (Exclusive of bank borrowings)	$ 7,107,491	$ 7,046,544	$ 6,916,676	$ 7,070,249	$ 6,828,879
Long Term Debt (Inclusive of bank borrowings)	$14,914,200	$14,275,000	$13,922,900	$13,959,071	$13,022,793
Annual Additions to Plant					
Utility	$ 2,461,116	$ 1,685,824	$ 1,786,298	$ 2,437,371	$ 3,565,414
Other	$ 434,443	$ 326,468	$ 215,349	$ 110,647	$ 3,203,708
Gross Plant (Before deducting customer contributions)					
Utility	$26,009,887	$23,690,666	$22,150,715	$20,600,907	$18,294,141
Other	$ 3,763,193	$ 3,451,331	$ 3,190,436	$ 2,994,355	$ 2,891,395
Miles of Pipeline (Transmission and Distribution)	3,062	2,658	2,521	2,240	1,711

Note: 1. After giving effect to the sale of the propane operations as of May 31, 1968 and the acquisition of Fort St. John Petroleums Ltd. December 27, 1968.

2. Before gain on foreign exchange.

Great Northern Gas Utilities Ltd.

and subsidiaries

To The Shareholders

Net earnings for the year ended December 31, 1972 amounted to $1,715,370 compared to $1,494,820 for the previous year, an increase of 14.7%. Cash flow from operations increased by 6% to $2,557,317 compared to $2,414,838 for 1971. Total revenues for the year were $12,229,185 compared to $11,012,255 for the previous year. Net earnings attributable to common shares after the payment of preferred dividends of $157,800 were $1,557,570 compared to $1,331,432 for 1971, an increase of 17%. A breakdown of net earnings on a comparative basis is as follows:

	1972	1971	Increase (Decrease)
From Operations	$1,107,522	$ 931,840	18.9%
From Investments	490,248	562,980	(12.9%)
	$1,597,770	$1,494,820	6.9%
Foreign exchange adjustment	117,600		
	$1,715,370	$1,494,820	14.7%

Combined sales increased to $11,116,306, or 11% over the previous year. Utility sales were $9,045,247 compared to $8,180,198 for 1971, an increase of 11%. Propane sales and oil and gas production sales increased to $1,768,316 from $1,551,085 in 1971. The increase in sales reflects the steady increase in customers with the extension and expansion of our systems and weather that was 7.7% colder than normal on a weighted average basis across our many systems.

The volume of gas sold during 1972 was 14,723,000 Mcf, 5% more than the 14,018,926 Mcf in the preceding year. Sales of electricity in the City of Yellowknife increased during the year by 28% to 36,469,000 Kwh. Propane sales were 5,572,000 gallons compared to 5,502,000 gallons in 1971.

Cost of sales at $5,344,619 was 49.8% of sales compared to 48.7% in 1971. Operating, selling and administrative expenses amounted to $2,517,841 compared to $2,394,274 for the preceding year, an increase of 5.2%. As a percentage of revenues these expenses were 1 percentage point less than in 1971. Controllable expenses continued to receive the constant attention of management while keeping in mind at all times the Company policy of maintaining customer service at a high standard.

Working capital, exclusive of bank borrowings, of $7,107,491 at December 31, 1972 is excellent and compares with $7,046,544 a year earlier. At year end working capital included $6,668,189 of short term investments. Cash from all sources during the year amounted to $2,788,781, of which $2,557,317 was from operations. During the year long term debt decreased by $286,400 and 2,900 of the Company's Series A preferred shares were purchased on the security market with respect to the purchase fund for the outstanding preferred shares.

Capital expenditures during the year amounted to $2,392,384, of which $1,581,666 was for construction in the natural gas and electricity operations. 404 miles of transmission and distribution pipe were installed, part of which was for new systems in 8 communities and 8 rural areas. At year end the Company served 32,466 gas utility customers through 3,062 miles of pipe in 75 communities and 22 rural areas. The number of electricity users in the City of Yellowknife increased 6% to 2,220. The Company was also serving 5,270 propane customers to whom 5,572,000 gallons were sold during 1972.

We are optimistic about 1973. The substantial increase in customers during the past year will be projected in the earnings of this year. Further, prospects are promising for a continuation of the good rate of growth. We expect that the attachment of utility customers in the service areas near the City of Edmonton will continue at last year's rate. Population and customer increases in the City of Yellowknife have been at a high rate and this attachment of electricity customers shows no sign of slowing down. Our propane sales outlets on Vancouver Island are ideally located to participate in the growth taking place in that area. The Company's overall growth prospects are excellent.

On behalf of the Directors of the Company, we wish to express their appreciation to all employees of the Company for their help in maintaining its record of excellent service to its valued customers.

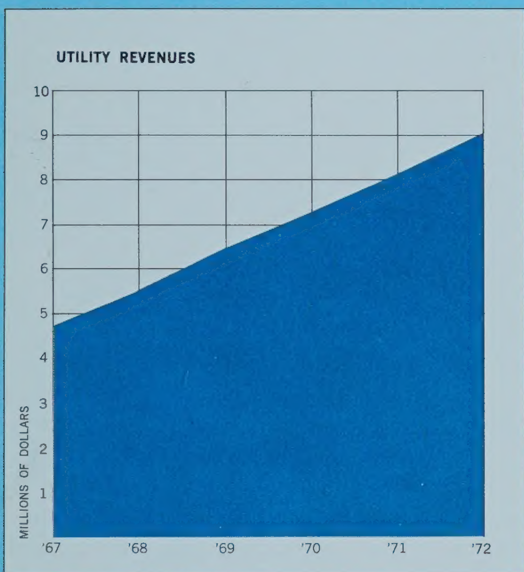
Respectfully

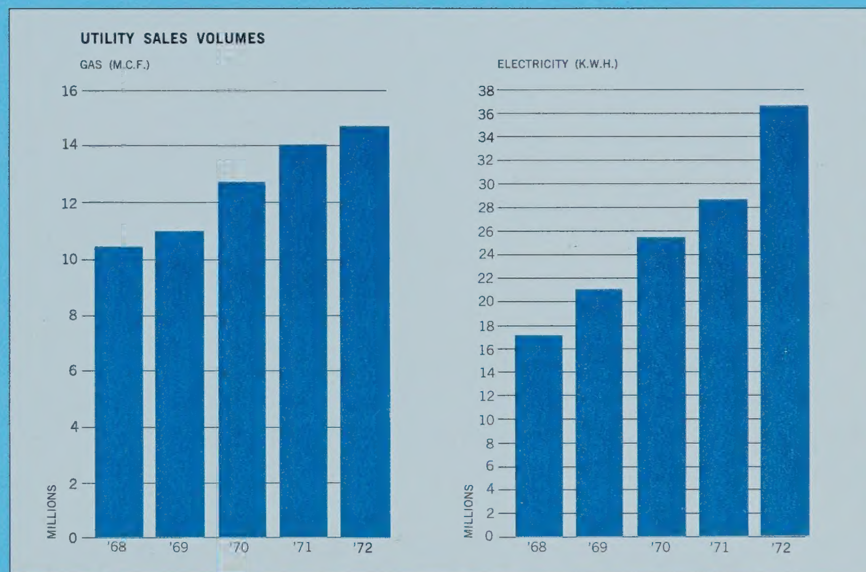
Chairman of the Board

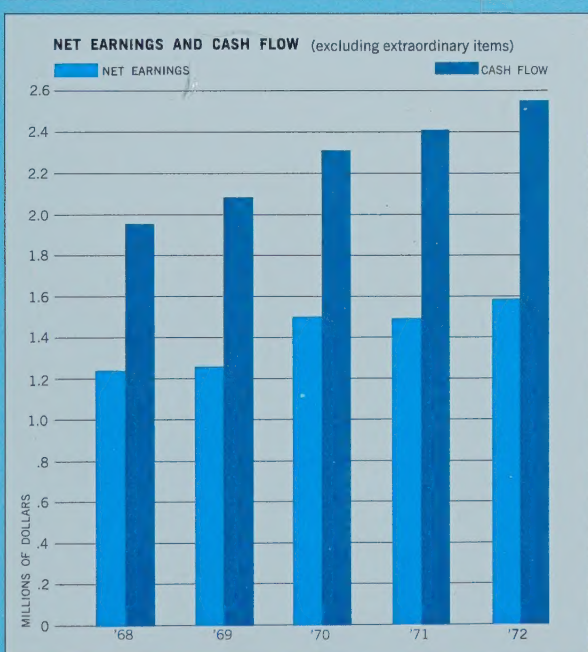
Anthony C. Rooney President

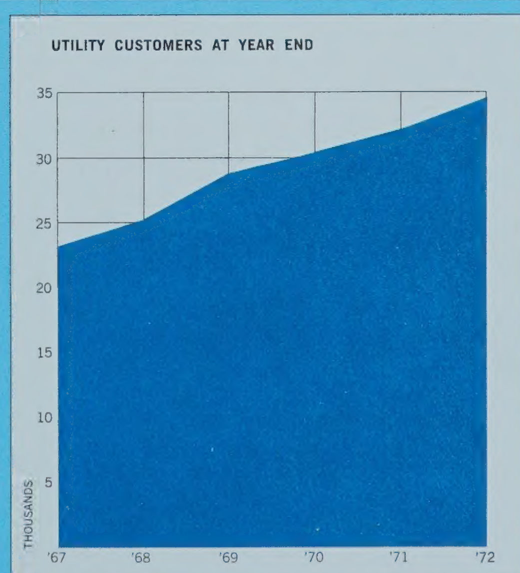
April 27, 1973

Great Northern Gas Utilities Ltd.
and subsidiaries









Great Northern Gas Utilities Ltd.

and subsidiaries

Consolidated Balance Sheet

DECEMBER 31, 1972 AND 1971

ASSETS

	1972	1971
Fixed at cost (Note 2)		
Transmission lines and distribution systems	$20,792,388	$19,266,791
Land, buildings and equipment	2,767,442	2,437,875
Oil and gas properties	2,434,612	2,214,385
Customers' installations	1,178,217	1,126,325
	27,172,659	25,045,376
Less		
Accumulated depreciation	6,515,864	5,926,175
Accumulated depletion	925,470	821,886
	7,441,334	6,748,061
	19,731,325	18,297,315
Investments at cost		
7¾% preferred shares of affiliate	5,250,000	5,250,000
Other	31,274	32,207
	5,281,274	5,282,207
Current		
Cash	171,094	84,534
Short term deposits	6,668,189	6,537,300
Accounts receivable	1,795,922	1,654,991
Inventories at lower of cost and net realizable value	569,465	513,603
Prepaid expenses	57,828	28,968
	9,262,498	8,819,396
Other		
Deferred charges less amounts written off	148,753	158,498
Cost of shares of subsidiaries over net book value at dates of purchase	263,729	278,781
	412,482	437,279
	$34,687,579	$32,836,197

See accompanying notes.

Great Northern Gas Utilities Ltd.
and subsidiaries

LIABILITIES

	1972	1971
Shareholders' equity		
Capital (Note 3)		
Authorized		
250,000 preferred shares, par value $25 each		
5,000,000 common shares, no par value		
Outstanding		
103,200 6% cumulative redeemable preferred shares (1971—106,100 shares)	$ 2,580,000	$ 2,652,500
3,130,000 common shares	6,034,970	6,034,970
Retained earnings (Notes 3 and 4)	6,689,447	5,992,627
	15,304,417	14,680,097
Minority interest in subsidiaries	1,764,398	1,623,052
Long term debt (Note 5)	11,934,200	12,337,000
Deposits	349,632	317,665
Deferred income taxes (Note 6)	199,925	167,531
Current		
Bank loan and bankers' acceptances	2,980,000	1,938,000
Accounts payable and accrued charges		
Trade	1,552,681	1,491,251
Affiliates	276,735	143,881
Income taxes payable	185,925	2,378
Current maturities of long term debt	97,200	98,400
Deferred income	42,466	36,942
	5,135,007	3,710,852
	$34,687,579	$32,836,197

On behalf of the Board:

[signature] Director.

Anthony C. Rooney Director.

See accompanying notes.

Great Northern Gas Utilities Ltd.
and subsidiaries

Consolidated Statement of Earnings

YEARS ENDED DECEMBER 31, 1972 AND 1971

	1972	1971
Revenue		
Sales	$11,116,306	$ 9,982,224
Investment income (including $406,875 dividend from an affiliate in 1972 and 1971)	794,926	823,758
Gain on foreign exchange (Note 5)	117,600	—
Other	200,353	206,273
	12,229,185	11,012,255
Expenses		
Cost of sales	5,344,619	4,692,576
Operating, selling and administrative expenses	2,517,841	2,394,274
Interest and expense on long term debt	782,003	807,019
Other interest expense	115,639	74,031
Depreciation	709,559	685,996
Depletion	103,583	87,754
Minority interest in earnings of subsidiaries	157,280	118,370
	9,730,524	8,860,020
Earnings before income taxes	2,498,661	2,152,235
Income taxes (Note 6)	783,291	657,415
Net earnings for the year	$ 1,715,370	$ 1,494,820
Net earnings per common share	$ .50	$ .43

See accompanying notes.

Great Northern Gas Utilities Ltd.
and subsidiaries

Consolidated Statement of Retained Earnings

YEARS ENDED DECEMBER 31, 1972 AND 1971

	1972	1971
Balance at beginning of year	$ 5,992,627	$ 5,276,795
Add net earnings for the year	1,715,370	1,494,820
	7,707,997	6,771,615
Deduct dividends		
Preferred shares	157,800	163,388
Common shares	860,750	615,600
	1,018,550	778,988
Balance at end of year	$ 6,689,447	$ 5,992,627

See accompanying notes.

Great Northern Gas Utilities Ltd.
and subsidiaries

Consolidated Statement of Source and Use of Funds

	1972	1971
Source of funds		
Operations		
Net earnings for the year	$ 1,715,370	$ 1,494,820
Add		
Depreciation and depletion	813,142	773,750
Deferred income taxes	32,394	39,964
Gain on foreign exchange	(117,600)	—
Minority interest	157,280	118,370
Other	(43,269)	(12,066)
Cash flow from operations	2,557,317	2,414,838
Disposal of fixed assets	204,115	94,202
Other	27,349	19,580
	2,788,781	2,528,620
Use of funds		
Additions to fixed assets	2,895,559	2,012,292
Less customer contributions	503,175	194,443
	2,392,384	1,817,849
Redemption of preferred shares	72,500	127,500
Reduction of long term debt	286,400	405,900
Dividends on common and preferred shares	1,018,550	778,988
	3,769,834	3,130,237
Decrease in working capital	$ 981,053	$ 601,617

See accompanying notes.

Notes to Consolidated Financial Statements

DECEMBER 31, 1972

1. Consolidation policy

The consolidated financial statements include the accounts of Great Northern Gas Utilities Ltd. and all its subsidiaries.

Certain of the 1971 accounts have been reclassified to conform with the 1972 classification of accounts.

2. Fixed assets

All costs related to the acquisition of, exploration for and development of oil and gas properties, whether productive or non-productive, are capitalized and depleted on the composite unit of production method based on total estimated reserves.

Depreciation of other fixed assets is provided on a straight line basis at rates varying from 2% to 20% which are designed to amortize the cost of the assets over their estimated useful lives.

3. Capital

Under the provisions relating to the outstanding preferred shares the Company is required to expend $60,000 annually for redemption of preferred shares if available on the open market, at a price not exceeding $24.50 per share. The Company has satisfied this obligation to June 30, 1975. In addition, the preferred shares are redeemable at any time at a price of $26.25 per share.

To December 31, 1972, the Company has redeemed 22,845 preferred shares of an aggregate par value of $571,125 (2,900 shares during 1972). Accordingly, consolidated retained earnings include $571,125 designated as "capital surplus" under the provisions of the Canada Corporations Act.

4. Dividend restriction

The provisions relating to the preferred shares and the 7¼% promissory note contain restrictions as to the declaration and payment of cash dividends on common shares, the most restrictive of which at December 31, 1972 limits the payment of such dividends to an amount which would not exceed $2,246,000.

5. Long term debt

	1972	1971
6% Sinking Fund Debentures, Series A due 1985	$ 7,896,000	$ 8,083,000
7¼% Promissory Note, due 1989 ($3,920,000 U.S.)	3,920,000	4,078,800
6% Sinking Fund Bonds, Series A of a subsidiary, due 1976	189,000	234,000
7% Notes	26,400	39,600
	12,031,400	12,435,400
Less current maturities included in current liabilities	97,200	98,400
	$11,934,200	$12,337,000

The 7¼% Promissory Note has been translated to Canadian dollars on the basis that $1.00 U.S. equals $1.00 Canadian. In 1971, the translation was recorded on the basis that $1.00 U.S. was equal to $1.03 Canadian. The resulting gain on translation of $117,600 is included in earnings.

Long term debt repayments in each of the five years subsequent to December 31, 1972 will be as follows:
1973 — $97,200; 1974 — $98,200; 1975 — $371,000; 1976 — $405,000 and 1977 — $350,000.

6. Income taxes

For income tax purposes the companies claim capital cost allowances (deprecia-

tion) and certain other charges in amounts which are different from the related charges to earnings. The companies follow the practice of tax allocation accounting with respect to such differences, except in the case of subsidiary companies engaged in the operation of public utilities which record only income taxes payable in determining rates. During 1972 claims for tax purposes of non-regulated companies exceeded depreciation and certain other charges provided in the accounts and deferred income taxes of $32,000 were provided thereon.

In addition, certain subsidiaries engaged in oil and gas operations claim drilling, exploration and property acquisition costs (intangible costs) for income tax purposes in excess of the related charges to earnings. The companies, in common with many other companies in the Canadian oil and gas industry, believe that tax allocation accounting with respect to claims for intangible costs is not appropriate, and accordingly, no provision has been made for deferred taxes on timing differences involving such costs.

If the tax allocation basis of accounting had been followed for all timing differences between taxable income and recorded earnings the income tax provision would have been increased and net earnings for the year would have been decreased by $182,000 — $.06 per share ($223,000 — $.07 per share in 1971).

The accumulated unrecorded income tax reductions related to all timing differences in the current and prior years amount to approximately $1,749,000 at December 31, 1972.

Accumulated expenditures remain to be carried forward and applied against future taxable income as follows:

	1972	1971
Drilling, exploration and property acquisition costs	$ 79,000	$ 117,000
Undepreciated capital cost . . .	$14,773,000	$13,806,000

7. Other statutory information

During the year the Company had eleven directors and five officers who were paid the following remuneration:

	Directors	Officers	Total
Paid by the Company . .	$10,600	$122,800	$133,400
Paid by subsidiaries	1,300	1,700	3,000
	$11,900	$124,500	$136,400

Two officers are also directors.

The remuneration paid to directors and senior officers of the Company during 1972 (defined by The Securities Act of Ontario as including the five highest paid employees of the Company and its subsidiaries) amounted to $151,200.

Auditors' Report

To the Shareholders of
Great Northern Gas Utilities Ltd.

We have examined the consolidated balance sheet of Great Northern Gas Utilities Ltd. and subsidiaries as at December 31, 1972 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Calgary, Canada.
February 27, 1973.

Chartered Accountants

Great Northern Gas Utilities Ltd.
and subsidiaries

Board of Directors

FERNAND E. CHENU
Brussels, Belgium

E. JACQUES COURTOIS, Q.C.
Montreal, Quebec

MARC H. DHAVERNAS
Montreal, Quebec

PAUL M. MARSHALL
Calgary, Alberta

FRITZ MORSCHBACH
Cologne, Germany

RAYMOND A. RICH
Chairman of the Board

ANTHONY C. ROONEY
President

J. GRANT SPRATT
Calgary, Alberta

DAVID R. WILLIAMS, JR.
Tulsa, Oklahoma

Officers

RAYMOND A. RICH
Chairman of the Board

ANTHONY C. ROONEY
President

ROBERT C. WHARTON
Vice-President, Operations

ERNEST W. STRAUS
Vice-President, Administration and Treasurer

WILLIAM A. TROUGHTON
Secretary

Subsidiary Companies

Plains-Western Gas & Electric Co. Ltd.
Operating in Alberta, British Columbia and Yellowknife, N.W.T.

Plains-Western Gas (Manitoba) Ltd.
Operating in Manitoba

Rockgas Utilities Ltd.
Operating in British Columbia

Fort St. John Petroleums Ltd.
Operating in British Columbia and Alberta

Transfer Agents and Registrar

Montreal Trust Company,

Montreal, Toronto and Calgary

Trustee for Debentures

Montreal Trust Company,

Montreal, Toronto, Edmonton and Calgary

Head Office

700 Three Calgary Place, Calgary, Alberta T2P 0J1

INTERIM REPORT

Six Months Ended June 30, 1972

file

Great Northern Gas Utilities Ltd.

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TO THE SHAREHOLDERS:

Net earnings for the six months period ended June 30, 1972 amounted to $1,053,404 compared to $1,007,630 for the same period of 1971, an increase of 5%. These earnings were achieved from operating revenues of $6,301,721 compared to $5,612,104 for the year earlier, an increase of 12%. Other income at $470,247 for 1972 was 7% greater than for the same period of 1971. Total expenses including cost of sales increased by 16% to $5,018,597. Earnings from operations increased by approximately 9% whereas earnings from investments decreased by 9%, principally due to the lower rates of return on the investment of surplus cash in the short term money market.

Sales volumes for the six months ended June 30, 1972 were 8,743,000 Mcf and 20,114,000 Kwh compared to 7,706,000 Mcf and 15,734,000 Kwh for 1971, increases of 13% and 28% respectively.

The capital construction program for 1972, which is presently in progress, will include construction in seven communities and five rural areas not previously served as well as the usual extension and expansion of existing systems.

A summary of the operating results and a statement of source and use of funds of the Company and its Subsidiaries for the six months ended June 30, 1972, with comparative figures for the same period of 1971 follows.

Chairman of the Board　　President

August 22, 1972

CONSOLIDATED STATEMENT OF EARNINGS

Six months ended June 30

	1972	1971
REVENUE:		
Sales	$6,301,721	$5,612,104
Income from investment in affiliate	203,438	203,438
Other	266,809	237,695
	6,771,968	6,053,237
EXPENSES:		
Cost of Sales	2,812,332	2,300,655
Operating, selling and administrative expenses	1,250,732	1,146,586
Interest and expense on long term debt	398,981	407,270
Other interest expense	55,524	35,633
Depreciation	365,194	337,001
Depletion	44,225	39,742
Minority interest in earnings of subsidiaries	91,609	60,972
	5,018,597	4,327,859
Earnings before income taxes	1,753,371	1,725,378
Income Taxes	699,967	717,748
Net earnings for the period (per common share 1972 - $.34; 1971 - $.32)	$1,053,404	$1,007,630

CONSOLIDATED STATEMENT SOURCE AND USE OF FUNDS

Six months ended June 30

	1972	1971
SOURCE OF FUNDS:		
Operations -		
Net earnings for the period	$1,053,404	$1,007,630
Add-depreciation and depletion	409,419	376,743
-deferred income taxes	16,598	18,287
-other	43,063	63,025
Cash flow from operations	1,522,484	1,465,685
Disposal of fixed assets	93,560	44,119
Other	(10,892)	(16,856)
	1,605,152	1,492,948
USE OF FUNDS:		
Purchase of fixed assets	842,909	538,947
Less customer contributions	63,859	24,680
	779,050	514,267
Redemption of preferred shares	7,500	50,000
Reduction of long term debt	146,412	163,262
Dividends on common and preferred shares	509,725	389,700
Financing and development costs	2,773	18,405
	1,445,460	1,135,634
Increase in working capital during the period	$ 159,692	$ 357,314

NOTE: Certain accounts for 1971 have been re-classified to conform with year-end classifications.

(prepared from the records of the Company without audit)